

MONTANA LEGISLATIVE HISTORY

Chapter 430 19 95

Bill H 530 S _____ Original bill & history C

H. Committee on Local Government

Hearing Date(s) Feb 14 ☒ C

_____ C

_____ C

_____ C

Date Out Feb 15 ☒ C

S. Committee on Local Government

Hearing Date(s) Mar 16 ☒ C

_____ C

_____ C

_____ C

Mar 20 ☒ C

Did this bill originate in an interim committee? Yes No

Committee _____

Report _____

2/18 FISCAL NOTE PRINTED
2/23 MISSED TRANSMITTAL DEADLINE
DIED IN COMMITTEE

HB 530 INTRODUCED BY WISEMAN, ET AL.

IMPLEMENT RECOMMENDATION OF THE GOVERNOR'S TASK FORCE TO
RENEW MONTANA GOVERNMENT BY CREATING AN ALTERNATIVE
ACCOUNTING METHOD FOR LOCAL GOVERNMENT ENTITIES

2/11	INTRODUCED		
2/11	FIRST READING		
2/11	REFERRED TO LOCAL GOVERNMENT		
2/13	FISCAL NOTE REQUESTED		
2/14	HEARING		
2/15	COMMITTEE REPORT—BILL PASSED AS AMENDED		
2/17	FISCAL NOTE RECEIVED		
2/17	FISCAL NOTE PRINTED		
2/18	2ND READING PASSED	96	2
2/20	3RD READING PASSED	98	2
	TRANSMITTED TO SENATE		
2/21	FIRST READING		
2/21	REFERRED TO LOCAL GOVERNMENT		
3/16	HEARING		
3/20	COMMITTEE REPORT—BILL CONCURRED AS AMENDED		
3/25	2ND READING CONCURRED	48	0
3/27	3RD READING CONCURRED	47	2
	RETURNED TO HOUSE WITH AMENDMENTS		
4/03	2ND READING AMENDMENTS CONCURRED	98	1
4/04	3RD READING AMENDMENTS CONCURRED	99	1
4/06	SIGNED BY SPEAKER		
4/07	SIGNED BY PRESIDENT		
4/10	TRANSMITTED TO GOVERNOR		
4/13	SIGNED BY GOVERNOR		
	CHAPTER NUMBER 430		
	EFFECTIVE DATE: 04/13/95		

HB 531 INTRODUCED BY ORR, ET AL.

PROVIDE FOR THE DESIGN OF CONSUMER REPORT CARDS ON HEALTH
CARE SERVICES

2/11	INTRODUCED		
2/11	FIRST READING		
2/11	REFERRED TO HEALTH CARE SELECT		
2/13	FISCAL NOTE REQUESTED		
2/14	HEARING		
2/18	FISCAL NOTE RECEIVED		
2/18	FISCAL NOTE PRINTED		
3/04	REREFERRED TO JOINT HEALTH CARE SELECT		
3/07	HEARING		
3/09	HEARING		
3/17	COMMITTEE REPORT—BILL PASSED AS AMENDED		
3/21	2ND READING PASSED	100	0
3/22	3RD READING PASSED	99	1
	TRANSMITTED TO SENATE		
3/23	FIRST READING		

NOTE: ON 3/8, THE SENATE SUSPENDED ITS RULES TO ALLOW THE JOINT
HEALTH CARE SELECT COMMITTEE TO VOTE AS A BODY RATHER THAN
A SEPARATE CHAMBER. THUS, HB 531 PROCEEDED DIRECTLY TO 2ND

SEN. GAGE asked Mr. Clark if he had language that would clarify that as long as they were paid for the current tax year, the plat should be recorded? Mr. Clark said that language would clarify the problem but he would communicate with their lead lobbyist. Mr. Harrington also responded to the question and stated that line 16 was the guts of the bill and all the other changes were made by Legislative Council and were intended to be style and drafting changes to make the language consistent. There was no intent to require all special assessments to be paid to the end of the line. The only difference would be if a person tried to file a plat between November 30 and May 31, they would have to pay the May 31 payment ahead of time. He said if there was a concern about adding the special assessments, he would prefer they strike the language.

SEN. ETHEL HARDING commented that she had talked to the Lake County Treasurer and she said the bill was to bring delinquent taxes up to date and if the bill did not read that way it would need to be changed.

SEN. GAGE said he felt the bill's intent was if you filed a plat between January and May, the May payment would not be delinquent yet. What they wanted to say was before you can file the plat, you must pay your May payment.

Closing by Sponsor:

REP. KEENAN closed.

EXECUTIVE ACTION ON HB 417

Motion/Vote: SEN. WELDON MOVED HB 417 BE CONCURRED IN.

Discussion:

SEN. HARGROVE questioned that it would take an act to allow a city to appoint another judge. Ms. Fox said that by the terminology "an elected or appointed city judge" she felt it was the understanding that there were doors. Mayor Larsen said the law says they had the opportunity to appoint or elect one city judge.

Vote: THE MOTION CARRIED UNANIMOUSLY.

HEARING ON HB 530

Opening Statement by Sponsor:

REP. BILL WISEMAN, HD 41, Great Falls, presented HB 530 which was an act implementing the recommendation of the Governor's Task Force to Renew Montana Government by creating an alternative

accounting method for local government entities. A study the previous summer looked at what it would take to clean up the accounting procedures in the present statute. The compromise reached allowed generally accepted accounting procedures (GAAP) to be used as well as the old procedures.

Proponents' Testimony:

Tim Magee, City of Great Falls Finance Director, presented his written testimony (EXHIBIT 4).

Alec Hanson, League of Cities and Towns, supported HB 530 and said that this would be a good change to title seven by giving cities the option of what accounting system they chose to use.

Newell Anderson, Administrator of Local Government Assistance Division, Department of Commerce, stated that they operate the local government auditing function which deals with the definitions of what local governments were intended to follow to report and account for their funds. They worked with the Task Force to make sure HB 530 protected the accountability and the reporting and disclosure requirements of public finance to the people at the local government level. As the bill was currently written they felt those functions were protected and not diminished in any way. He stated they felt HB 530 was a responsible bill and they looked forward to the rewriting of title seven in the future.

{Tape: 1; Side: B; Approx. Counter: ; Comments: .}

Gordon Morris, Montana Association of Counties, stated they supported HB 530.

Laurie Ekanger, representing Governor Racicot, stated they supported HB 530.

Ed Blackman, Gallatin County Fiscal Officer, presented his written testimony in favor of HB 530 (EXHIBIT 5).

David Ashley, Deputy Director, Department of Administration, stated that if the committee chose to look favorably on HB 530, he encouraged them to consider the amendments he presented (EXHIBIT 6). He asked the committee's concurrence of HB 530 and consideration of his amendments.

David Johnson, Legislative Chairman of the Montana Society of CPA's, presented the committee with two documents regarding HB 530 (EXHIBIT 7 AND 8). He stated that they have a concern that the bill talked about creating an alternative accounting method and in fact there was not an alternative accounting method, GAAP was the accounting method. He felt that what was being proposed was alternative accounting procedures or administrative

procedures as to how things were going to be done administratively. They were not changing GAAP as municipalities were not authorized to do so and they suggested that they look into the title and address alternative accounting administrative procedures because they were not really accounting methods from the technical point of view.

Dick Larsen, Mayor of Billings, said they felt this needed to be considered and did not see it as a detriment and supported the opportunity to allow choices.

Opponents' Testimony:

Dennis Burr, Montana Taxpayers Organization, stated that section 67 which required if you were going to increase property taxes budgeted that you made notice of public hearing. He said it served the property owner by providing notice and provided protection for local governments. He said they objected to having an exception because of accounting methods to that particular section of law. He felt that with the amendment, HB 530 would be satisfactory.

Questions From Committee Members and Responses:

SEN. DOROTHY ECK asked if anyone still used the pegboard system? Mr. Anderson said that there were some governments who still used that system.

SEN. ECK asked if instruction was still given to the small entities to help them with their accounting? Mr. Anderson said they did still give instruction. They produce a bars chart of accounts which references every statute in Montana and what it requires.

SEN. GAGE asked if the House addressed the technical amendment to the satisfaction of everyone concerned? REP. WISEMAN replied that they did answer the questions presented by Mr. Magee.

SEN. HARDING asked in regard to page two line two if a entity adopted the GAAP method are they complying with state accounting alternative method? REP. WISEMAN said he thought so and said that the alternative was looked at as whether it was methods or procedures. If an entity had adopted GAAP, they were ok.

CHAIRMAN TOM BECK asked the difference between GAAP and what was currently being used. Mr. Magee said that GAAP was generally accepted accounting principles as set by the governmental county standards book or any of the other volume.

CHAIRMAN BECK asked Mr. Nowell if he had a guide on GAAP they would send to the counties and if he would like to see it mandatory in all counties? Mr. Nowell said that they did have a guide that is very large and additional information appeared monthly. He said that GAAP was the leading edge of accounting

methods and the bar system was on the trailing edge as it was not as broad or detailing. He suggested that depending on the capacity of the local entity they chose the method that would best fit them.

CHAIRMAN BECK asked if Mr. Nowell's department would be willing to take the lead to help a county set up on the GAAP system. Mr. Nowell said that they would be very helpful.

SEN. HARDING asked if there were any counties on the GAAP method? Mr. Nowell said that he was reluctant to suggest that there were people out of compliance with GAAP because they would not be able to receive an unqualified audit. He said that the bars system fell within GAAP and suggested that very few entities were out of compliance.

SEN. HARDING asked who from the counties were represented on the Governor's Task Force? Mr. Ashley said Stan Hughes from Gallatin County, Gloria Polatachuck, and Andy Dwightman of Yellowstone County but he could not remember all of the members.

SEN. HARDING said that if there were finance people on the Task Force then there would be different levels represented. Mr. Ashley said that he felt there was a good representation of small and large counties.

SEN. ECK asked if there would be significant changes in the budget due to a change in the accounting method? Mr. Magee said that would not happen because she was talking about the annual report rather than the budget and under GAAP you must also restate if methods would be changed.

Closing by Sponsor:

REP. WISEMAN said this was not a loop hole or a procedure for any city or county that could be in bad financial shape. HB 530 would make the budget easier to fit in the fiscal year. He suggested that more cities and counties will go to the GAAP method and he urged the committee to concur HB 530.

EXECUTIVE ACTION ON HB 393

Motion: SEN. LYNCH MOVED TO STRIKE ON PAGE 2 LINE 7 AND 8 "IF THE DUTIES ARE ASSIGNED TO THE COUNTY SURVEYOR".

Discussion:

SEN. LYNCH said his amendment would remove the possibility of any mischief.

EXECUTIVE ACTION ON HB 425

Motion/Vote: SEN. HARDING MOVED HB 425 BE CONCURRED IN. THE MOTION CARRIED UNANIMOUSLY.

EXECUTIVE ACTION ON HB 530

Discussion:

SEN. WELDON said that the amendments passed out looked correct.

Ms. Fox said there were the second amendments passed out which talked about using the word method. She said it was not complicated but method was used 71 times in the bill.

SEN. GAGE said he did not feel it was a big deal and did not need to be changed.

Motion/Vote: SEN. ECK MOVED TO ADOPT THE AMENDMENTS TO HB 530. THE MOTION CARRIED UNANIMOUSLY.

Motion: SEN. ECK MOVED HB 530 BE CONCURRED IN AS AMENDED.

Discussion:

SEN. HARGROVE asked if all the things in the fiscal note had been addressed? Ms. Fox said they appeared to have been addressed in the House.

Vote: THE MOTION CARRIED UNANIMOUSLY.

EXECUTIVE ACTION ON HB 249

Motion/Vote: SEN. ECK MOVED HB 249 BE CONCURRED IN. THE MOTION CARRIED UNANIMOUSLY.

EXECUTIVE ACTION ON HB 289

Discussion:

CHAIRMAN BECK said he thought the Public Service Commission supported the bill.

SEN. LYNCH was concerned that if utilities were raised more than 12% there should be some type of hearing.

SEN. ECK said they would have to have a hearing because a resolution would be needed for the increase.

MONTANA SENATE
1995 LEGISLATURE
LOCAL GOVERNMENT COMMITTEE

ROLL CALL

DATE 3-16-95

[illegible]

SEN:1995

wp.rollcall.man

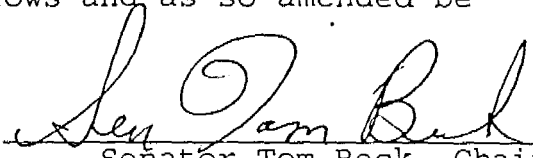
CS-09

SENATE STANDING COMMITTEE REPORT

Page 1 of 1
March 20, 1995

MR. PRESIDENT:

We, your committee on Local Government having had under consideration HB 530 (third reading copy -- blue), respectfully report that HB 530 be amended as follows and as so amended be concurred in.

Signed: 

Senator Tom Beck, Chair

That such amendments read:

1. Page 2, line 11.

Insert: "(5) A local government entity that adopts the alternative accounting method by resolution shall submit a copy of the resolution to the department of commerce."

2. Page 34, lines 19 and 20.

Strike: "--" on line 19 through "exception" on line 20

3. Page 34, line 21.

Strike: "it received"

Insert: "of"

4. Page 35, lines 15 and 16.

Strike: lines 15 and 16 in their entirety

-END-


Amd. Coord.
Sec. of Senate


Senator Carrying Bill

641003SC.SPV

HB 530.02

ALTERNATE ACCOUNTING METHOD

TESTIMONY of: Tim Magee, City of Great Falls Finance Director

KEY POINTS ON HB 530 include:

- ◆ It started out as 1½ pages. The meat of the bill is still contained in the first two pages.
- ◆ It is an OPTION available only to municipal, county and consolidated city-county governments IF:
 - the entity adopts the alternative by resolution; and,
 - the entity has received an auditor's unqualified opinion for its preceding fiscal year.
- ◆ It requires an annual audit. Therefore a critical review will be made, and submitted to the Dept. of Commerce, every year for any entity under this option.
- ◆ It is more stringent than existing state law by requiring:
 - a budget is to be adopted by the beginning of the fiscal year (July 1st); and,
 - better advertised public hearings for both adoption and amendment
(2 Notices under 7-1-4127 for municipal, and 7-1-2121 for county)
- ◆ The Department of Commerce has always supported Generally Accepted Accounting Principles (GAAP) in its requirements, and GAAP is the core of this legislation. Therefore there will be no loss of "comparable" information among various entities. Entities do not provide "identical" records or reports under current requirements.

HB 530.02

ALTERNATE ACCOUNTING METHOD

TESTIMONY of : Tim Magee, City of Great Falls Finance Director
Page 2

TITLE 7 WILL STILL NEED TO BE REWRITTEN:

A. Title 7 represents 90+ years of statutory layering.

It contains:

- contradictory statutes;
- statutes that conflict with Generally Accepted Accounting Principles;
- unnecessary micro-management; and,
- out-dated concepts.

B. Title 7 should contain concise requirements including:

- recognition of Generally Accepted Accounting Principles;
- recognition of the Department of Commerce's overview capacity;
- a minimum of "security blanket" type guidance; and,
- a consistent approach to providing for the public interest.

C. A focus group is working on a major revision of Title 7.

It is:

- coordinated through the Local Government Center at Montana State University (Ken Weaver, Director);
- aimed at drafting statutory replacement of Title 7, with emphasis on Part 6;
- committed to obtaining support from all interested parties before submission to the legislature; and,
- **to be presented at the 1997 Legislative session.** Recognizing that a Title 7 rewrite, with the necessary broad base input and support, will take significant time and effort to achieve.

D. HB 530 provides a foot in the door for more comprehensive improvement. It does not rewrite Title 7. The entities adopting the alternative should be good testing grounds for eventual Title 7 improvements.

HB 530.02 ALTERNATE ACCOUNTING METHOD

TESTIMONY of: Tim Magee, City of Great Falls Finance Director

Page 3

GOVERNOR'S TASK FORCE RECOMMENDATIONS

In the Governor's Task Force to Renew Montana Government publication Preparing for a New Century the Local Government Committee noted:

The finance and budget administration law for local governments needs to be rewritten and made more concise. This can be done by defining minimum standards for financial and budget administration and by requiring conformance to nationally recognized standards. ... (Page 27)

... The law needs to be changed to refine the relationship between budgets and the fiscal year. ... (Page 28)

Accounting and financial reporting in particular can be virtually done away with in the state law by referring to nationally recognized standards, which are not only vastly superior to current state law, but must be followed anyway for governments wishing to access national credit markets. (Page 28)

GOVERNMENT ACCOUNTING STANDARDS BOARD (GASB)

The Government Accounting Standards Board (GASB) is the nationally recognized authority for GAAP. GASB's Codification of Governmental Accounting and Financial Reporting Standards in:

GASB Cod. Sec. 1200.108 states:

Legal provisions may conflict with GAAP. These differences often occur because constitutional, charter, or other legal provisions governing fiscal operations are antiquated and difficult to change.

GASB Cod. Sec. 1200.110 states:

Conflicts between legal provisions and GAAP do not require maintaining two accounting systems. Rather, the accounting system may be maintained on a legal compliance basis, but should include sufficient additional reports to permit GAAP-based reporting. ...

Accordingly, **GAAP discourages** detailed rule making for accounting through statutes, and considers GAAP to be a higher standard of requirements for consistent and comprehensive records and reports.

HB 530.02

ALTERNATE ACCOUNTING METHOD

TESTIMONY of : Tim Magee, City of Great Falls Finance Director
Page 4

BUDGET DEVELOPMENT

The Government Finance Officers Association (GFOA) is recognized by the AICPA and GASB as being an authoritative source for generally accepted standards in support of other GAAP pronouncements. The GFOA has a Distinguished Budget Presentation Awards Program. This, along with BARS and other Dept. of Commerce guidance, provides very clear guidance to budget development.

HOUSE BILL NO. 530

CREATING AN ALTERNATIVE ACCOUNTING METHOD FOR
LOCAL GOVERNMENTS

March 16, 1995

3:00 P.M.

Senate Local Government Committee

Testimony of Ed Blackman, Gallatin County Fiscal Officer

I am Ed Blackman, the fiscal officer for Gallatin County, I am here in support of House Bill 530 - An act creating an alternative accounting method for local government entities. This bill will allow county commissions greater accountability for budgeting and reporting to their taxpayers.

I particularly like the fact that this act is at a county's discretion. Only those county's that desire to fully implement the requirements of Generally Accepted Accounting Principles need to make the change. Approving a budget prior to the beginning of the new fiscal year will decrease the problems associated with not having spending authority until 1.5 months into a fiscal year.

This bill will decrease local government costs when they decide to purchase accounting software. Currently we must modify existing accounting packages if we adhere strictly to state statute. These modifications add additional costs to the purchase plus and decrease flexibility. Whenever upgrades are received the modifications may or may not work with the upgrade. This results in additional costs or errors in reports occurring.

I encourage you to support House Bill 530. Thank you for your support of this bill.

Respectfully submitted;

Ed Blackman

1. Page 2, line 11
INSERT: "(5) A local government entity that adopts the alternative accounting method by resolution shall submit a copy of the resolution to the department of commerce."
2. Page 34, line 21
STRIKE: "it received"
FOLLOWING: "property tax revenue"
INSERT: "of"
3. Page 35, lines 15-16
STRIKE: lines 15 and 16 in their entirety.

end

Explanation of Proposed Amendments to HB 530

1. The purpose of this amendment is to provide the Department of Commerce with notification of which cities and counties opt for the alternative accounting method. With the amendment, the Department of Commerce will be better able to work with those local governments and coordinate their administrative overview.
2. This amendment leaves in place section 67 assuring taxpayers the continued security provided under 15-10-203, MCA. The amendment allows more timely adoption of budgets by those cities and counties opting for the alternative accounting method by allowing the use of estimated taxes, as opposed to waiting until the next fiscal year when taxes "it received" are known.

Frenchtown Public Schools, District No. 40

P.O. Box 117
Frenchtown, Montana 59834

MICHAEL W. NICCSIA
406-626-5762
SUPERINTENDENT

SUSAN M. SHANKLE
406-626-5762
DIRECTOR OF BUSINESS SERVICES

THOMAS C. KALLAY
406-626-5232
HIGH SCHOOL PRINCIPAL
MT Society of CPAs
P.O. Box 138
Helena, MT 59624-0138

February 27, 1995

Attn. Aaron Williams, MSCPA Legislative Intern
Tom Harrison, MSCPA Lobbyist
RE: HB No. 530

Dear Aaron and Tom:

Per your request, HB #530 was reviewed by Ron Foltz, Loren Randall and myself. Here are our combined comments on this bill:

1. Local governments are already required to adopt generally accepted accounting principles per the Montana Budgetary, Accounting and Reporting System (BARS) implemented beginning in 1975.
2. Generally accepted accounting principles (GAAP) are uniform minimum standards of and guidelines to financial accounting and reporting. Adherence to GAAP assures that financial reports of all state and local governments - regardless of jurisdictional legal provisions and customs - contain the same types of financial statements and disclosures, for the same categories and types of funds and account groups, based on the same measurement and classification criteria. Adherence to GAAP is essential to assuring a reasonable degree of comparability among the financial reports of state and local governmental units. While GAAP does not provide guidance on statutory requirements such as the duties of clerks, tax levy requirements, budgetary notice and hearing requirements, rule making authority, etc. as exempted in HB #530, pursuant to NCGA Statement 1, "A governmental accounting system must make it possible both: (a) to present fairly and with full disclosure the financial position and account groups of the governmental unit in conformity with generally accepted accounting principles, and (b) to determine and demonstrate compliance with finance-related legal and contractual provisions. An important aspect of GAAP as applied to governments is the recognition of the variety of legal and contractual considerations typical of the government environment. These considerations underlie and are reflected in the fund structure, bases of accounting, and other principles and methods set forth here, and are a major factor distinguishing governmental accounting from commercial accounting. Governmental accounting systems designed in conformity with these principles can readily satisfy most management control and accountability information needs with respect to both GAAP and legal compliance reporting. To that end, the adoption of GAAP does

SENATE LOCAL GOVT. COMM.

EXHIBIT NO. 7

DATE 3-16-95

BILL NO. HB 530

PEGGY L. ANDERSON
406-626-4461
ELEMENTARY PRINCIPAL

RICK L. UNRUH
406-626-4461
ASST. ELEMENTARY PRINCIPAL

not eliminate the need to follow detailed rules which ensure consistency between and among local governmental units and which document compliance with legal provisions.

3. Local governments do not adopt their own auditing standards as indicated in the purpose statement. Independent auditors are required to follow auditing standards. Accordingly, there should be no reference to auditing standards within this bill.

4. The term "alternative accounting method" implies, to an accountant, a method other than generally accepted accounting principles. The bill is misleading, as indicated above, as generally accepted accounting principles, are already required pursuant to BARS. (Although we recognize that there are some small local government entities that report on the cash basis. Dept. of Commerce could provide additional information on how many entities report on the cash basis).

5. This bill essentially removes all budgetary and tax levy requirements, except for one public hearing, for those local governments who prepare their annual financial reports based on generally accepted accounting principles. GAAP does not dictate the standards by which budgets are prepared. However, pursuant to NCGA Statement 1, "Budgetary comparisons should be included in the appropriate financial statements and schedules for governmental funds for which an annual budget has been adopted." Care should be taken to protect the public's interest and the accountability in the budget and levy setting process. Again, GAAP encourages adopting a system which demonstrates compliance with legal provisions.

6. We recognize that some of the Title 7 requirements are outdated and may no longer be needed. However, elimination of these requirements should not be contingent upon the issuance of an unqualified opinion. What happens when an entity does not receive an unqualified opinion every year? Some years they must comply and others not? And further, one county doesn't have to comply with certain budgetary and reporting provisions of Title 7 but the neighboring county does because they received a qualified opinion (usually on fixed asset reporting)? Again, we state that GAAP focuses on consistency and comparability between and among governmental units. Additionally, this is accomplished through the role of the Dept. of Commerce in Section 7-6-2302, MCA. There must be authority at the state level to ensure consistency and comparability between and among local government units, particularly for providing state-wide information to the legislature.

Please contact me should you desire additional information or comments. The intent of the bill is desirable but we believe it has some unintended consequences and additional review is necessary before making the proposed amendments as written in HB 530.



SENATE LOCAL GOVT. COMM.

EXHIBIT NO. 8

DATE 3-16-95

BILL NO. HB 530

P.O. Box 5021, 59403-5021

March 10, 1995

Tom Harrison, Jr.
Harrison, Loendorf & Poston, P.C.
Attorneys at Law
Suite 21, Professional Center
2225 Eleventh Avenue
Helena, Montana 59601

Fax No. 406-443-7427

Dear Tom:

Thank you for the opportunity to address the concerns expressed by members of the CPA society relative to House Bill 530.

I would like to point out:

HB530 started out as a two pages. The meat of the bill is still contained in the first two pages. Pages 3 through 35 (Sections 5 through 67) were added by the Montana Legislative Council to detail existing statutes which were already contradictory, or would be superseded (at least in part) by HB530.

HB530 is an OPTION available only to municipality, county and consolidated city-county governments.

HB530 allows for an alternative if:
the entity adopts the alternative by resolution; and,
the entity has received an auditor's unqualified opinion for its preceding fiscal year.

The Department of Commerce was consulted in the drafting of this bill, their input was included, and they testified for the bill. They are delegated the responsibility to prescribe accounting forms, reports and systems for local governments. Their primary tool has been the Montana Budgetary Accounting and Reporting System (BARS).

Some CPA's involved in local government auditing were consulted for their opinion of this bill. Their response was positive, but they declined to actively endorse the bill due to the possibility of perceived conflict with auditor neutrality.

Page 2

COMMENT 1

Local governments are already required to adopt GAAP per BARS.

BARS is prescribed under the authority of the Department of Commerce. Although it very closely follows Generally Accepted Accounting Principles (GAAP), it does not establish GAAP.

The Government Accounting Standards Board (GASB) is the nationally recognized authority for GAAP. HB530 in Section 4, Part 1 requires GAAP for the local government in accordance with GASB. HB530 does not reduce the usefulness of BARS or minimize the value of the Department of Commerce as a good reference source for local governments in Montana.

COMMENT 2

The adoption of GAAP does not eliminate the need to follow detailed rules which ensure consistency between and among local government units and which document compliance with legal provisions. GAAP encourages adopting a system which demonstrates compliance with legal provisions. (Comment 5 overlaps other parts of Comment 1)

This comment quoted NCGA Statement 1 as GAAP. NCGA Statement 1 has been superseded by GASB's Codification of Governmental Accounting and Financial Reporting Standards. GASB Cod. Sec. 1200.108 states:

Legal provisions may conflict with GAAP. These differences often occur because constitutional, charter, or other legal provisions governing fiscal operations are antiquated and difficult to change.

GASB Cod. Sec. 1200.110 states:

Conflicts between legal provisions and GAAP do not require maintaining two accounting systems. Rather, the accounting system may be maintained on a legal compliance basis, but should include sufficient additional reports to permit GAAP-based reporting. ... Accordingly, GAAP discourages detailed rule making for accounting through statutes, and considers GAAP to be a higher standard of requirements for consistent and comprehensive records and reports.

EXHIBIT 8
DATE 3-16-95
HB 530

Page 3

COMMENT 3

Local governments do not adopt their own auditing standards as indicated in the purpose statement. There should be no reference to auditing standards within this bill.

HB530, Section 1 - Purpose states in part: "... to encourage local governments to adopt generally accepted accounting principles and auditing standards. ..." Note this acknowledges generally accepted standards, and does not encourage entities to create their own standards.

HB530, Section 4 states the entity shall: "(4) cause an annual audit in accordance with the provisions of Title 2, chapter 7, part 5; ..." This confirms existing auditing provisions. AICPA publications are still the authoritative source for audit standards.

COMMENT 4

The term "alternate accounting method" is misleading because it implies, to an accountant, a method other than generally accepted accounting principles. Generally accepted accounting principles are already required pursuant to BARS.

"Alternate Accounting Method" is a title denoting that there would be an option. HB530 wording very clearly establishes a closer tie to GAAP as a requirement. If accountants become interested in this "alternative", they will read the very concise wording of the new statutes (sections 1 through 4) and quickly understand the "alternative" is GAAP.

COMMENT 5

This bill essentially removes all budgetary and tax levy requirements, except for one public hearing. GAAP does not dictate the standards by which budgets are to be prepared. (Comment 5 repeats items addressed in Comment 2)

Section 4, part 5 of this bill is more stringent than existing state law requiring: adoption of the budget by July 1st (the start of the fiscal year); and, better advertised public hearings for both adoption and amendment.

For cities, the combination of 7-6-4228 and 15-10-203 currently only requires a single public hearing for budgetary and tax levy requirements. Under 7-6-4227, MCA the City is only required to do a single publication of notice for a budget hearing. Because that law is superseded, HB530 would require cities to publish notices twice under 7-1-4127, MCA.

The Government Finance Officers Association (GFOA) is recognized by the AICPA and GASB as being an authoritative source for generally accepted standards in support of other GAAP pronouncements. The GFOA has a Distinguished Budget Presentation Awards Program. This, along with BARS and other Dept. of Commerce guidance, provides very clear guidance to budget development.

Page 4

COMMENT 6

Elimination of statutory requirements should not be contingent upon the issuance of an unqualified opinion. What happens when an entity does not receive an unqualified opinion every year? There must be authority at the state level to ensure consistency and comparability between and among local government units, particularly for providing state-wide information to the legislature.

The unqualified opinion is considered the best, readily available, standard to qualify for the option of this "alternative accounting method". It signifies an entity which has shown awareness and implementation of GAAP.

During draft review phases, wording was developed to require continuing unqualified audits. It was eventually dropped for three reasons:

1. Timing. An entity would not know it received other than an unqualified audit opinion until up to 6 months after a fiscal year end. Any reversion from the alternative accounting method would have to be after a one year lag.
2. Commitment. Once an entity has received an unqualified audit opinion, it is unusual for it to significantly regress. An unqualified audit opinion and adoption of the alternate accounting method, shows a long-term commitment to excellence at the highest levels.
3. Pointless. The alternative is not considered a less restrictive requirement. It simply avoids some of the unnecessary micro-management and contradiction in statutes.

HB530 does not exempt entities from filing audits and annual reports with the Department of Commerce. The Department of Commerce overview function has not been eliminated or minimized. The exemptions to Department of Commerce rules simply recognize that generally accepted standards for accounting, budgeting and auditing are set on a national scale.

I believe this answers all of the comments related by Susan Shankle, CPA. Please contact me if there are any further questions on HB530.

Sincerely,

M. Tim Magee, Finance Director
(406) 771-1180 ext 376
fax: (406) 452-8048

DATE March 16, 1995

SENATE COMMITTEE ON LOCAL GOVERNMENT

BILLS BEING HEARD TODAY: HB 393 HB 417

HB 425 HB 530

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Check One

Name	Representing	Bill No.	Support	Oppose
HORACE BROWN	MISSION LA Co.	393	✓	
Jim Logan	Billings Tel. Co.	393		
Cort Harrington	Mont County Treas.	HB 425	✓	
Tim Magee	City of Great Falls	HB 530	✓	
Newell Anderson	Dept of Commerce	HB 530	✓	
Richard Rosen Mayon	City of Billings	HB 417	✓	
W James Kember	City of Billings	HB 530	✓	
Dave Ashley	Dept of Administration	HB 530	✓	
James Clark	MT Assoc. REALTORS	425		X
James Clark	// //	393	X	
Ed Blackman	Gallatin Co.	530	X	
Blake Wodal	Levi & Clark Co	393	✓	
Ed Blackman	Gallatin Co.	393	✓	
Bill Kennedy	Yellowstone Co.	417 593	✓	

VISITOR REGISTER

PLEASE LEAVE PREPARED STATEMENT WITH COMMITTEE SECRETARY

DATE _____

SENATE COMMITTEE ON _____

BILLS BEING HEARD TODAY: _____

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Check One

Name	Representing	Bill No.	Support	Oppose
VERNON R. ZICKEFOOSE	ROAD ACTION CMTG YELLOWSTONE COUNTY	393	X	
Gordon Morris	MAC	393	X	
u u	MAC	530	X	
Dave Johnson	MT Society of CPA	530		

VISITOR REGISTER

PLEASE LEAVE PREPARED STATEMENT WITH COMMITTEE SECRETARY

with the greater burden that is continually being placed on the lower courts. He recapped all the additional laws that have been enacted creating this necessity.

Opponents' Testimony: None

Informational Testimony: None

Questions From Committee Members and Responses: None

Closing by Sponsor:

The sponsor closed and noted there will be no cost to the state of Montana for this service as the cost is borne by the city, therefore it should be their decision to buy the service.

HEARING ON HB 530

Opening Statement by Sponsor:

REP. BILL WISEMAN, HD 41, Great Falls, made his opening remarks for HB 530 which deals with an act implementing the recommendation of the Governor's Task Force to Renew Montana State Government by creating an alternative accounting method for local government entities. He read three quotes from the governor's task force:

The finance and budget administration law for local government needs to be re-written and made more concise.

The law needs to be changed to refine the relationship between budgets in a financial year.

Accounting and financial reporting in particular can be virtually done away with in the state law by referring to national recognized standards which are not only vastly superior to current state law, but must be followed for governments wishing to access national credit markets.

REP. WISEMAN reviewed the sections of the bill.

{Tape: 1; Side: A; Approx. Counter: 18.5;}

Proponents' Testimony:

Laurie Ekanger, Governor's Office, stated that the Governor has accepted the recommendation of the local government task force. This bill provides an opportunity for cities and counties to professionalize their accounting and auditing practices. There are 150 pages in law of bookkeeping requirements for cities and counties, most of which predate generally accepted accounting

principles and automation. This bill would allow compliance with nationally recognized standards that are propagated by the Government Accounting Standards Board. Ms. Ekanger said they felt this is good government for local government and consistent with what they do at state level. She urged the committee's support.

Tim McGee, Finance Director, City of Great Falls, said he has worked with the Department of Commerce on this bill and has researched what it would take and what type of laws it would supersede. This bill is an alternate that can be done if there is a clean audit and has proven the abilities in the area of accounting and if not, they would not qualify to get into this bill. It does not eliminate any of the state laws that exist for the vast majority of entities that would choose to stay under them. It does put stricter standards of General Separate Accounting Principles and Generally Accepted Audit Standards (GAP). It also calls for more timely addressing of the budget. Mr. McGee reviewed what current law states in this matter.

Newell Anderson, Montana Department of Commerce, said they stand in favor of HB 530 for the reasons mentioned. This bill would protect the disclosure of public accounting and public reporting with finances. It would also protect the public accountability of the use of funds throughout local government. He presented and explained the amendments to the committee.

Gordon Morris, Director, Montana Association of Counties, stated their support for HB 530.

Alec Hanson, Montana League of Cities and Towns, spoke in support of HB 530.

Jim Nugent, City Attorney, Missoula, reiterated support of HB 530.

Opponents' Testimony: None

Informational Testimony: None

Questions From Committee Members and Responses:

REP. DAVID EWER asked Mr. Anderson if he sees a day when all of the statutes will be repealed and they will just make reference to municipal general accounting standards. Mr. Anderson responded in the affirmative. He said there are those local governments that are not ready for this lack of prescription with reference to setting dates and having certain things prescribed by law. There are 1,430 jurisdictions of local government and some do need the blue print--as antiquated as it may be--as prescribed in existing statutes.

REP. EWER asked Mr. McGee if they will get the national award for following GAP accounting. Mr. McGee said they have submitted for

it this year. They have the national award for distinguished budget presentation. **REP. EWER** asked if there are any conflicts in following national recognized GAP accounting and if they are "out of sync" with the state. **Mr. McGee** responded that in some cases they have to violate some of the state laws because they are contradictory, so they have to choose which way they are going to go and have a state law to support this. The Department of Commerce has been very good about working with the generally accepted accounting principles and has not restricted them in any way from applying and accepting in lieu of some of the more detailed requirements they may have. He explained the format of reporting.

REP. EWER asked if citizens might find it confusing to be aware of the process that has been in the state for 100 years. **Mr. McGee** responded no, he does not see that as a problem. He explained they have already adopted a budget tentatively scheduled to be adopted by June 21. They are requiring the departments to have them in by February 17 and they will go to the commission in May. There will also be a hearing process.

REP. TONI HAGENER asked if the accounting principles being suggested are going to be compatible with the state. **Mr. McGee** responded yes. **REP. HAGENER** questioned the effective date. **Mr. McGee** responded if they wait until October, they will have to wait a year to do the budget by this standard.

CHAIRMAN WILLIAM BOHARSKI questioned the July 1 deadline for the final budget, and asked if that is the first day of the next fiscal year. **Mr. McGee** said if they complete it that day, they have it in place that day and will do it by resolution which is one of the budget laws. **CHAIRMAN BOHARSKI** questioned having the budget done the day after the fiscal year closes. **Mr. McGee** responded they will have their budget done on or before that so it is done by July 1st.

CHAIRMAN BOHARSKI asked what percentage of towns are not going to be able to meet GAP standards and what percentage are going to follow these procedures. **Mr. Hanson** responded the larger cities will take advantage of this law and go with the GAP arrangement. It will take some time for the smaller cities to get to this, but believes eventually they will see the advantage of doing it that way.

CHAIRMAN BOHARSKI asked **Mr. Morris** about consistency of notice, referring to page 2, line 29, and asked if that would apply to consistent advertising previously discussed. **Mr. Morris** responded that the hearing language on page 12 is inconsistent with the language they discussed in terms of 7-12121, which from his perspective, would be the controlling language for publication of notice for all purposes associated with the county. **CHAIRMAN BOHARSKI** asked if the new Section 4 should be made pursuant to the same. **Mr. Morris** agreed.

Closing by Sponsor: The sponsor closed.

HEARING ON HB 421

Opening Statement by Sponsor:

REP. DAVID EWER, HD 45, Helena, made his opening remarks and gave the major thrust and background for HB 421 which is an act revising the laws on county hospitals; providing for county health care facilities; providing for the pledge of taxes to the repayment of certain bonds; authorizing the construction, leasing, and financing of health care facilities; clarifying that certain bonds may be issued without election. This will define the appropriate mission for county government to provide medical services and would attempt to bring the current, out-of-date statutes into the modern era. REP. EWER reviewed the sections of the bill and pointed out the inconsistencies in the codes and major points.

Proponents' Testimony:

Mae Nan Ellingson, Attorney, Dorsey & Whitney, Missoula, distributed her testimony giving a section-by-section description of the changes in the bill. Ms. Ellingson said in general, the bill proposes expanding references to county "hospitals" to certain "health care facilities." This bill needs to be enacted because the bill no longer works in rural counties. There is a provision of law that says if a county already has a hospital, they cannot issue bonds to finance any other health care institution. This has been interpreted by the Attorney General's Office that if there is a hospital, they could not build a nursing home adjacent to the hospital nor could they issue new bonds to renovate, remodel or expand that hospital if the circumstances warranted it. She gave an example of Toole County wanting to construct a personal care facility.

Ms. Ellingson said the definition of hospital is much more narrow than it should be in terms of what counties actually need to do. This bill will clean up inconsistencies that currently exist in various provisions of Title 7 in parts 34 and 7. EXHIBIT 3

Bob Olsen, Montana Hospital Association, spoke in support of HB 421 and said they helped craft the bill. Most of the county facilities that exist in the state today are not limited to only hospital services, but are diversifying into a variety of other community services. This is the kind of flexibility that the modern statutes have to provide for local governments.

Gordon Morris, Director, Montana Association of Counties (MACO), said he also helped on this legislation and believes it is carefully crafted. He asked for favorable consideration.

Motion/Vote: REP. HERRON MADE A SUBSTITUTE MOTION HB 438 BE TABLED. Motion carried 13-5 with REPS. BOHARSKI, BRAINARD, DENNY KEENAN and MCCULLOCH voting no.

EXECUTIVE ACTION ON HB 530

Motion: REP. FORBES MOVED HB 530 DO PASS. REP. EWER MOVED THE AMENDMENTS.

Discussion:

REP. EWER said on page 1, line 28 he moved that the word "auditing" be changed to "accounting." Page 2, line 13 change "federal accounting standards advisory board" to "governmental accounting standards board"; line 23, he moved to say "cause an annual audit and".

REP. MILLS said on page 2, line 10 strike "local" out before "government". Mr. Campbell said they are not striking "local."

REP. EWER continuing; page 1 line 26 the sentence end with the word "town" and strike as defined in 275017.

Mr. Campbell referred to page 1, line 26, and explained the change.

REP. MILLS asked if that meant the towns incorporated. Mr. Campbell responded yes. REP. MILLS asked about unincorporated. Mr. Campbell said they are not a local government entity under the traditions of this bill.

CHAIRMAN BOHARSKI asked for clarification on the striking of the language on page 2, line 23. Mr. Campbell further explained the striking of language in various sections.

REP. DENNY questioned on page 2, line 13, "Federal Standards Accounting Advisory Board" and asked if the name of the board is something else. REP. EWER said Governmental Accounting Standards Board is the right name.

CHAIRMAN BOHARSKI questioned striking the language on line 23. REP. EWER responded said that was what Newell Anderson suggested be done. REP. EWER said he would change his amendment to remove the portion that strikes the last words on page 2, line 23.

Vote: Motion to approve REP. EWER'S amendments carried unanimously.

Motion: CHAIRMAN BOHARSKI MOVED HIS AMENDMENT ON PAGE 2, LINE 29 AND 30.

Discussion:

CHAIRMAN BOHARSKI said the language on line 29 and 30 conflicts with what MACO is interested in doing and he explained the rationale.

REP. EWER stated his support of this amendment.

Vote: Motion carried unanimously.

Motion/Vote: REP. WYATT MOVED HB 530 DO PASS AS AMENDED. Motion carried unanimously.

EXECUTIVE ACTION ON HB 129

Motion: REP. BOHLINGER MOVED HB 129 BE RECONSIDERED.

Discussion: REP. BOHLINGER explained his rationale for reconsideration of HB 129.

CHAIRMAN BOHARSKI concurred with this motion.

REP. MCKEE said at the time of the hearing, a lot of people were in strong opposition to HB 129 and REP. RANEY has also said that is no longer the case. She requested the opportunity to make a phone call before further action on this bill be taken.

REP. BOHLINGER agreed to take up this consideration on Thursday.



HOUSE STANDING COMMITTEE REPORT

February 15, 1995

Page 1 of 2

Mr. Speaker: We, the committee on Local Government report that House Bill 530 (first reading copy -- white) do pass as amended.

Signed:

William E. Boharski

Bill Boharski, Chair

And, that such amendments read:

1. Page 1, line 26.
Following: "county"
Strike: ", "
Insert: "or an incorporated"
Following: "city"
Strike: ", "
Following: "town"
Strike: "as defined in 2-7-501(7)"
2. Page 1, line 28.
Strike: "auditing"
Insert: "accounting"
3. Page 1, lines 29 and 30.
Strike: "and" on line 29 through "accounting" on line 30
4. Page 2, line 1.
Strike: "method"
5. Page 2, line 13.
Strike: "federal"
Insert: "governmental"
Strike: "advisory"
6. Page 2, line 29.
Following: "hearings"

Committee Vote:
Yes 12, No 0.

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February 15, 1995
Page 2 of 2

Insert: ", pursuant to the provisions of 7-1-2121 or 7-1-4127,"

-END-

HOUSE OF REPRESENTATIVES

VISITOR'S REGISTER

Local Government

COMMITTEE

BILL NO.

530

DATE

2/14/95

SPONSOR(S)

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NAME AND ADDRESS	REPRESENTING	BILL	OPPOSE	SUPPORT
Tim Magee	City of Great Falls	530		X
Newell Anderson	Dept of Commerce	530		X
Jim Nugent	City of Missoula			X
Gordon Morris	MACO			X
Laurie Ekanger	Governors Office			X
Larry Jaschke	City of MT Falls			X
Donna	MLCT			X

PLEASE LEAVE PREPARED TESTIMONY WITH SECRETARY. WITNESS STATEMENT FORMS ARE AVAILABLE IF YOU CARE TO SUBMIT WRITTEN TESTIMONY.